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Fiscal Note

Fiscal Services Division

HF 2441 – Lease Debt Service (LSB 5480HV)
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Fiscal Note Version – New

Description

Iowa Code chapter 346 allows a county, in cooperation with its county seat city, to create an authority for the purpose of acquiring, building, and operating a joint city/county public building. **House File 2441** moves the source of revenue for payment of costs associated with the authority from the county supplemental or city additional levy to the debt levy. The levy to support the authority is also exempted from revenue diversion through Tax Increment Financing (TIF). The change is first effective FY 2014.

Background

Scott County, and perhaps other cities and counties, has utilized **Iowa Code section 331.424(1)(a)(5)** to levy a property tax to raise revenue for lease payments on a joint city/county building. The levy available by law is the county supplemental levy. The Scott County lease payment is $2.125 million per year.

County supplemental levies are not exempt from diversion through TIF. Debt service levies are exempt from TIF. Therefore, in a county where a portion of the value is in a TIF increment, it takes a higher supplemental levy to generate a given level of revenue than would be the case if the debt service levy is used.

The tax base of Scott County is 4.9% within various TIF increment areas. Nine cities have TIF increment areas active for FY 2013.

Fiscal Impact

This change will allow Scott County, and any other city or county in a similar situation, to switch the source of revenue for making a lease payment from the county supplemental levy to the county debt service levy. Currently, using the supplemental levy as the revenue source for the lease payment means that only revenue from the non-TIF increment portion of the county is available. With the change in the Bill, the revenue from property value that is in a TIF increment will also be used to make the lease payment. As a result, a property tax rate that is $0.0142 per $1,000 lower will be necessary to raise the $2.125 million lease payment. This should result in a lower overall Scott County property tax rate beginning in FY 2014. With or without the change, the same revenue is raised, but with the change the tax rate needed is lower. **Table 1** provides the impact to Scott County.

Table 1 - Impact on Scott County

	Taxable Value in Millions	Revenue Needed for Lease Payment in Millions	Property Tax Rate Needed to Raised Required Revenue ($/thousand)
Scott County	$ 7,345	$ 2.125	$ 0.2893
Scott County, including TIF Increment Value	7,725	2.125	0.2751
Difference	$ 380	$ 0.000	$ -0.0142

However, removing the lease payment portion from the supplemental levy and adding it to the debt service levy will mean a lower tax rate available for TIF. This is because the debt service levy is exempt from TIF, but the supplemental levy is not. As a consequence, all Scott County cities that utilize TIF will see a lower yield from their current TIF increment values. **Table 2** provides the TIF revenue reduction expected. **Table 2** is based on FY 2013 increment values and the assumed lease payment tax rate of $0.2893 per $1,000.

Table 2 - Impact on City TIF

	Property Tax Revenue Change
Bettendorf	$ -21,662
Blue Grass	-4,754
Davenport	-33,547
Donahue	-208
Eldridge	-8,550
Le Claire	-30,310
New Liberty	-242
Princeton	-454
Walcott	-10,083
TIF Revenue Reduction	$ -109,810

The information in **Table 2** is based on FY 2013 TIF increment values and FY 2014 could be different. The cities may have options available to make up the reduced TIF revenue this change would necessitate. The options will include claiming additional increment value that they would otherwise not claim, or extending the time necessary to retire TIF debt. Both options will result in higher property tax rates in FY 2014 and subsequent years, although the rate increase will just offset the decrease in the Scott County rate shown in **Table 1**.

Sources

Scott County
Department of Management Property Tax Data Files

/s/ Holly M. Lyons

March 15, 2012

The fiscal note for this bill was prepared pursuant to **Joint Rule 17** and the correctional and minority impact statements were prepared pursuant to **Iowa Code section 2.56**. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.